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RUEHBO/AMEMBASSY BOGOTA 7304  
RUEHBR/AMEMBASSY BRASILIA 5908  
RUEHBU/AMEMBASSY BUENOS AIRES 1593  
RUEHLP/AMEMBASSY LA PAZ 2493  
RUEHPE/AMEMBASSY LIMA 0761  
RUEHSP/AMEMBASSY PORT OF SPAIN 3378  
RUEHQT/AMEMBASSY QUITO 2591  
RUEHSG/AMEMBASSY SANTIAGO 3909  
RUEHDG/AMEMBASSY SANTO DOMINGO 0419  
RUMIAAA/HQ USSOUTHCOM MIAMI FL  
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RUCPDO/DEPT OF COMMERCE  
RUEATRS/DEPT OF TREASURY  
RHEHNSC/NSC WASHDC

C O N F I D E N T I A L SECTION 01 OF 02 CARACAS 000700

SIPDIS

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ENERGY FOR CDAY, DPUMPHREY, AND ALOCKWOOD  
NSC FOR DTOMLINSON

E.O. 12958: DECL: 01/12/2017

TAGS: [EPET](#) [ENRG](#) [EINV](#) [ECON](#) [VE](#)

SUBJECT: CNPC'S TAKE ON RECENT BILATERAL AGREEMENTS

REF: A. CARACAS 669

[1](#)B. CARACAS 38

[1](#)C. CARACAS 666

Classified By: Acting Economic Counselor Shawn E. Flatt for Reason 1.4  
(D)

[1](#)1. (C) SUMMARY: CNPC was guardedly optimistic about the recent signing of bilateral petroleum agreements between China and Venezuela (Reftel A). CNPC believes the BRV is still open to foreign investment in the hydrocarbon sector. However, the company is frustrated with negotiations to migrate Sinovensa, a joint venture company created to produce Orimulsion, to a joint venture under PDVSA control. The BRV has halved production at Sinovensa as part of its effort to comply with OPEC production cuts. In addition, CNPC is still waiting for dividends from the joint venture formed from its former operating service agreements fields (OSA). END SUMMARY

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THE GOOD NEWS  
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[1](#)2. (C) Petroleum Attache (Petatt) met with CNPC Vice President Jinling Zhang (strictly protect throughout) on April 4 to discuss the recent signing of six petroleum agreements between China and Venezuela (Reftel A). Zhang said CNPC believes the BRV is still open to foreign investment in the hydrocarbon sector because CNPC suggested most of the agreements, and the BRV eagerly accepted their ideas.

[1](#)3. (C) Zhang admitted she was not clear if the agreements for the development of the Junin 4 and Carabobo blocks in the Faja, although positive on their faces, really represented a step forward. She stated that she does not believe that CNPC has any rights to develop the blocks until the Energy

Ministry places an announcement in the Official Gazette. Zhang complained that Junin 4 could produce up to 400,000 barrels per day, but that the BRV has capped production at 200,000 barrels. She also confirmed that the BRV expects the blocks to have a 20% recovery rate. When Petatt noted that would be difficult due to the amount of gas needed to reach this level, Zhiang agreed and noted that it would also require a significant amount of investment on the part of CNPC.

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FRUSTRATED LIKE EVERYONE ELSE  
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¶4. (C) As reported in Reftels A, Venezuela and China signed an agreement to exploit the area in the Faja targeted for Orimulsion production, Block MP-3. The agreement states that Block MP-3 will be expanded once the parties resolve their dispute over the cessation of Orimulsion production (Reftel B). Zhang stated that the BRV and CNPC are negotiating the migration of the Sinovensa joint venture, which was created to produce Orimulsion, to a joint venture along the lines of the joint ventures formed from the OSAs. Zhang noted a CNPC delegation would visit Venezuela in the coming weeks to negotiate the terms of the migration. She added that the terms the BRV has proposed so far resemble the OSA migration terms. According to Zhang, Sinovensa is currently producing 20,000 barrels of heavy crude oil or 50% of its past production levels as a result of OPEC production cuts. Sinovensa's production is mixed with light crude oil for marketing purposes.

¶5. (C) CNPC's two OSAs, Caracoles and Intercampo Norte, were unified into a single joint venture during the OSA migration

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process. PDVSA took a 75% stake in the joint venture. The two fields produced roughly 23,000 barrels per day when they migrated to the joint venture in March 2006. Zhang complained that CNPC has not been reimbursed for any of the funds it has invested in the fields since that date. In addition, it has not received any dividends. PDVSA has promised to pay CNPC its dividends by the end of the month. Zhang stated that PDVSA previously stated CNPC would receive its dividends by the end of March. On a positive note, Zhang stated she was very impressed with PDVSA official Orlando Chacin, whom she described as technically knowledgeable and very professional. Chacin sits on the boards of all of the former OSA joint ventures. Zhang stated Chacin was very proactive in the last Caracoles-Intercampo Norte board meeting and pushed officials come up with definite steps to resolve problems. He also corrected officials' technical and accounting errors.

¶6. (C) When Petatt raised the agreement for the formation of a joint venture to develop the mature fields in the Zumano area in eastern Venezuela, Zhang was less than enthusiastic. She stated the fields' surface facilities were in poor condition and that the fields would require a great deal of investment. According to local analysts, the Zumano area has approximately 420 million barrels of remaining reserves distributed throughout nearly 900 reservoirs.

¶7. (C) Zhang was unable to provide much in the way of additional information on agreement between PDVSA and China Petroleum Technology & Development Company (CPTDC) to form a joint venture to assemble drilling rigs and service oil wells in Venezuela. According to its website, CPTDC is a wholly-owned subsidiary of CNPC and is China's largest professional foreign trade company. It specializes in manufacturing and supplying petroleum and petrochemical material, equipment, and technology. Zhang stated she believe four of the drilling rigs are supposed to be delivered by the end of the year. She also opined that PDVSA would eventually force service companies into joint ventures and that at some point these joint ventures would be nationalized (Reftel C).

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BIO NOTE  
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18. (C) Zhang is an impressive professional who tends to be blunt once she feels comfortable with contacts. This is the second time that she has been posted to Venezuela and she takes a dim view of the BRV's hydrocarbon policies and PDVSA's operational capabilities (Reftel B). She does not have a fixed time period for her current assignment. She has a daughter who recently graduated from college and works for Deutsche Bank in Hong Kong.

BROWNFIELD